

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-12 FRB-01 INR-10 IO-14 NEA-10 NSAE-00 USIA-15
OPIC-06 SP-02 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
STR-07 DOE-11 SOE-02 /138 W
-----064921 282017Z /43

R 281749Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6277
DEPARTMENT TREASURY
INFO AMEMBASSY PARIS
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN

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USOECD

E.O. 11652: N/A
TAGS: EFIN, ECON, GW
SUBJECT: ECONOMIC INSTITUTES ON ECONOMIC OUTLOOK

1. SUMMARY. LATEST REPORTS OF THREE OF GERMANY'S
BIG FIVE ECONOMIC INSTITUTES GIVE RATHER CONTRASTING
PERSPECTIVES ON THE ECONOMIC OUTLOOK. DIW (BERLIN)
SEES PERIOD OF ECONOMIC STAGNATION AT END GIVEN
PROSPECTS FOR STRONG FIRST QUARTER GNP EXPANSION;
IFO (MUNICH) DOUBTS ECONOMY HAS SUFFICIENT STEAM TO
STOP UNEMPLOYMENT RATE FROM RISING DURING 1978 AND
PROPOSES MORE PUBLIC EMPLOYMENT AND SHORTENED WORKWEEK;
RWI (ESSEN) SEES EXCESSIVE WAGE SETTLEMENTS HOLDING
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BACK ANY SIGNIFICANT ECONOMIC UPSWING IN 1978. END
SUMMARY.

2. LATEST STUDIES BY THREE OF THE FRG'S BIG FIVE
ECONOMIC INSTITUTES REFLECT SOMEWHAT DIFFERENT POINTS
OF VIEW REGARDING THE PROSPECTS OF THE GERMAN ECONOMY
IN 1978. THE DIW'S MOST RECENT REPORT ASSERTS THAT

THE PERIOD OF ECONOMIC STAGNATION IS NOW AT AN END. DIW PROJECTS, ON THE BASIS OF PRODUCERS' ORDERS AND INDICATIONS OF STRONGER INVESTMENT, FIRST QUARTER GROWTH RATE OF 1.5 PERCENT (SEASONALLY AND WORKDAY ADJUSTED BASIS). TOGETHER WITH FOURTH QUARTER GNP INCREASE OF 1.3 PERCENT, THIS WOULD IMPLY STRONGEST SIX MONTHLY SPURT IN GROWTH RATE (ANNUALIZED RATE OF 5-6 PERCENT) SINCE FOURTH QUARTER 1975/FIRST QUARTER 1976 PERIOD. DIW CONCEDES, HOWEVER, THAT CONSUMER DEMAND CONTINUES TO SHOW WEAKNESS.

3. IFO TAKES RATHER MORE SOMBER VIEW OF THE STRENGTH OF FRG ECONOMIC RECOVERY. IN ITS FEBRUARY REPORT, THE IFO NOTES THAT WHILE DOMESTIC DEMAND PICKED UP SHARPLY IN THE SECOND HALF OF 1977, THE PATTERN OF THE INCREASE WAS UNEVEN. LARGE ORDERS, PARTICULARLY FOR DEFENSE, ACCOUNTED FOR AN EXCEPTIONAL PORTION OF THE RISE. IFO CLAIMS THAT DOMESTIC DEMAND FOR CONSUMER GOODS AND FOR RAW MATERIALS DURING THIS PERIOD WAS STAGNANT. IFO'S LATEST SURVEYS OF BUSINESS CONFIDENCE ALSO INDICATE THAT BUSINESSMEN HAVE LOWERED THEIR EXPECTATIONS OF FUTURE PRODUCTION.

4. IFO SEES COMBINED DOMESTIC AND FOREIGN DEMAND EXPANDING BY 3 1/2 PERCENT IN 1978. HOWEVER, WITH IMPORTS EXPANDING BY SIX PERCENT, GNP GROWTH FOR 1978 UNCLASSIFIED

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WILL BE RATHER LESS THAN THREE PERCENT, A RATE ONLY marginally higher than 1977'S RATE OF EXPANSION. THIS WOULD CORRESPOND TO A FOURTH QUARTER TO FOURTH QUARTER GROWTH RATE OF FOUR PERCENT.

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5. IFO DISCOUNTS THE INFLATIONARY DANGERS OF A STRONGER RATE OF RECOVERY. IN IFO'S VIEW, THE PROBLEM IS NOT ADDITIONAL INFLATIONARY PRESSURES BUT RATHER LIMITED POSSIBILITIES FOR STIMULATING THE ECONOMY: MONETARY POLICY HAS BEEN USED TO THE LIMITS AND NEW PUBLIC SECTOR PROJECTS CANNOT BE FORMULATED IN TIME TO RAISE ECONOMIC ACTIVITY IN 1978. IFO PROPOSES MORE PUBLIC EMPLOYMENT, FOR WHICH IT FINDS A GENUINE NEED, AND PERHAPS EVEN MORE IMPORTANT, A SHORTENING OF THE WORKWEEK. (COMMENT: THRUST OF CHANCELLOR SCHMIDT'S FEBRUARY 21 SPEECH TO LABOR UNIONS, HOWEVER, WAS THAT PUBLIC EMPLOYMENT WAS NO PANACEA FOR HIGH UNEMPLOYMENT.) UNCLASSIFIED

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IFO ALSO URGES TAX REFORM AND EASING OF ADMINISTRATIVE BARRIERS TO INVESTMENT AS NECESSARY FOR LONGER TERM GROWTH OF THE ECONOMY.

6. LATEST BIMONTHLY REPORT OF THE RWI SEES THE STIMULATIVE EFFECTS ON CONSUMPTION FROM TAX RELIEF BEING PARTIALLY OFFSET BY THE POSTPONEMENT OF STEP-INCREASES IN PENSIONS AND BY AN INCREASE IN THE VAT. AT THE SAME TIME INVESTMENT WILL BE DEPRESSED BY WHAT THE RWI CONSIDERS AS EXCESSIVE WAGE SETTLEMENTS WHICH EMPLOYERS CANNOT PASS ON IN PRICE INCREASES. RWI CONCLUDES THAT GNP WILL ONLY EXPAND BY 2 - 3 PERCENT IN 1978. MEEHAN

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